

IMESS DISSERTATION



Note: Please email the completed mark sheet to Year 2 coordinator (jiri.vykoukal@post.cz)

Please note that IMESS students are not required to use a particular set of methods (e.g. qualitative, quantitative, or comparative) in their dissertation.

Student:	Wenjin Yao
Dissertation title:	The Impact of EU Eastern Enlargement on FDI In CEE Countries - Using the Synthetic Counterfactuals Method

	70+	69-65	60-64	59-55	54-50	<50
	A	B	C	D	E	F
Knowledge <i>Knowledge of problems involved, e.g. historical and social context, specialist literature on the topic. Evidence of capacity to gather information through a wide and appropriate range of reading, and to digest and process knowledge.</i>			60			
Analysis & Interpretation <i>Demonstrates a clear grasp of concepts. Application of appropriate methodology and understanding; willingness to apply an independent approach or interpretation recognition of alternative interpretations; Use of precise terminology and avoidance of ambiguity; avoidance of excessive generalisations or gross oversimplifications.</i>		65				
Structure & Argument <i>Demonstrates ability to structure work with clarity, relevance and coherence. Ability to argue a case; clear evidence of analysis and logical thought; recognition of an argument's limitation or alternative views; Ability to use other evidence to support arguments and structure appropriately.</i>			60			
Presentation & Documentation <i>Accurate and consistently presented footnotes and bibliographic references; accuracy of grammar and spelling; correct and clear presentation of charts/graphs/tables or other data. Appropriate and correct referencing throughout. Correct and contextually correct handling of quotations.</i>			60			
Methodology <i>Understanding of techniques applicable to the chosen field of research, showing an ability to engage in sustained independent research.</i>		65				

ECTS Mark:	C/63	Charles Mark:	C/74	Marker:	Vilém Semerák
<i>Deducted for late submission:</i>			No	Signed:	Electronically signed, Vilém Semerák
<i>Deducted for inadequate referencing:</i>				Date:	September 6 th , 2024

MARKING GUIDELINES

A (UCL mark 70+) = A (Charles mark 91-100 - excellent): Note: marks of over 80 are given rarely and only for truly exceptional pieces of work.

Distinctively sophisticated and focused analysis, critical use of sources and insightful interpretation. Comprehensive understanding of techniques applicable to the chosen field of research, showing an ability to engage in sustained independent research.

B (UCL mark 69-65) = B (Charles mark 81-90 – very good)

C (UCL mark 64-60) = C (Charles mark 71-80 – good): A high level of analysis, critical use of sources and insightful interpretation. Good understanding of techniques applicable to the chosen field of research, showing an ability to engage in sustained independent research. 65 or over equates to a B grade.

D (UCL mark 59-55) = D (Charles mark 61-70 – satisfactory)

E (UCL mark 54-50) = E (Charles mark 51-60 – sufficient):

Demonstration of a critical use of sources and ability to engage in systematic inquiry. An ability to engage in sustained research work, demonstrating methodological awareness. 55 or over equates to a D grade.

F (UCL mark less than 50) = F (Charles mark 0-50 - insufficient):

Demonstrates failure to use sources and an inadequate ability to engage in systematic inquiry. Inadequate evidence of ability to engage in sustained research work and poor understanding of appropriate research techniques.

Please provide substantive and detailed feedback!

Comments, explaining strengths and weaknesses (*at least 300 words*):

Summary:

Wenjin Yao analyses the effects of EU enlargement on the FDI inflows into (and the resulting FDI stocks in) the CEE new member countries that entered the EU in 2024. As far as empirical methodology is concerned, the thesis based mainly on the synthetic control method. In addition to this, the author attempts to provide an overview of the development of actual FDI inflows into the countries and a selective overview of policies and literature relevant to the topic.

The objective is described in a conflicting way (p. 7): on the one hand, the author wants to use SCM in order to identify the effects of EU enlargement on FDIs (which is doable); on the other hand, the author claims that the results will be useful for formulating FDI-related policies (which is hard to achieve with a simple SCM). However, the SCM can be considered an acceptable method for the stated objective (some additional issues are discussed below).

The thesis meets the objective and shows that FDI inflows after the EU accession were higher (for the new members) than before the accession. This is a correct result, but the attempts to provide additional details are negatively influenced by what is missing in the thesis, i.e. a deeper discussion of the pre-accession situation (only on p. 66 – the author finally mentions the anticipation effects and the role of pre-accession agreements – which probably should have appeared earlier in the text). Another weaker point is the language. The text is written in a relatively soft, often not too precise, but rather sprawling style. The thesis does not include some possibly very relevant issues (details on FDI data, global value chains), but provides space for the discussion of more loosely related issues or for very soft “policy recommendations”.

All in all, although I agree that the main conclusion (positive effects of EU membership on FDI) is correct, it is a conclusion which is hardly surprising or novel. What would have been more interesting would be a more reliable quantitative estimate, but the reliability of the actual estimated difference between treated and synthetic countries seems very limited. It is a pity that the author did not decide to focus on analysis and FDIs (+ FDI-related policies) more deeply instead of wasting time and space, e.g. on policy recommendations or speculations about the future possible role of BRI; the results might have been better.

Main comments:

Language:

The text is often lengthier but also less precise than necessary. More detailed proofreading (ideally by a native speaker) would have improved the text quality. The softer parts of the text (and speculative interpretation of the results) include many general statements that are not based on the results or data provided in the thesis (and they are not supported by direct references either).

Literature review (and related sections):

The literature review (section 2) provides a rather traditional overview of the main approaches to the explanation of FDI. The clarity of the explanations is a bit weaker. Subjectively, it seems to me that the author relied on indirect sources or sources in Chinese rather than the original texts (e.g. the title of the subsection on Kojima - p. 11). The overview is also relatively brief; a critical evaluation or overview of empirical results is missing.

One crucial topic is missing in the literature review, although it can be considered very relevant for the discussion of the effects of the FDI: global value chains and the changes in the positions of the CEE countries in global value chains (GVCs – are only mentioned indirectly in one paragraph on p. 26). In fact, much of the FDI, e.g. from Germany to Czechia, can be seen as being directly linked to GVCs.

Strangely enough, the literature review leaves the discussion of economic factors and data incomplete and instead diverges to a soft discussion of political (2.2.3.2.) and social (2.2.3.3) effects, which are less relevant to the actual topic of the thesis.

The description of policies applied by the countries in the 1990s is rather partial (p. 28). The countries were also creating systems of investment incentives (and modifying them), they were signing investment treaties with non-EU countries etc. The description of the relationship between privatisation and FDI inflows (p. 24) is oversimplified: while Hungary and Poland relied on FDI, Czechia was relatively well-known for preferring forms of privatisation that reduced the strong role of foreign capital (e.g. voucher privatisation) in early stages of privatisation. Similarly, “shock therapy” (p.

25) was more relevant for some countries (Poland) than e.g. Hungary.

When the text discusses the dominance of EU FDIs (in the total FDIs coming to the countries), e.g. on p. 29-34, two important factors are not mentioned: (i) the possible effects of the gravity relationship - the importance of Germany for Czechia and Finland for Baltic states appears to be entirely in line with this relationship, (ii) the fact that many investors from countries from outside of the EU used their EU-based subsidiaries to take care of the FDI - and then the investment became an EU-originated investment in traditional investment statistics.

Methodology

The synthetic control method can be considered a relevant method for similar types of empirical studies, and it is quite adequate for undergraduate (and if implemented with proper rigour, then graduate) theses. In spite of some issues with notation, the author explains the method reasonably well.

The results are, however, negatively influenced by two sets of factors.

1. Factors relevant for short-run effects – immediately after 2004

CEE countries experienced rather turbulent 1990s and very dynamic changes in their external policies. Very importantly, their trade relations with the EU were already largely liberalised before the accession took place thanks to the (initially asymmetric) liberalisation achieved under the association agreements. In addition to this, investors had prior signals indicating which countries will become members of the EU in 2004. All this, however, means that if the author focuses on the year 2004, then the identified gap between the actual and synthetic FDI might not precisely correspond to the effects of accession. It can be bigger (if there are delayed effects of trade and other liberalisation policies implemented earlier) or small (if the investors bet on their anticipations and started investing earlier). I acknowledge that the author mentioned this issue, although I would prefer to see a bit more detailed discussion of the factors involved.

2. Long run issues

The author attempted to use data which ended in 2020. This, however, means that there is a relatively very short “training period” and a longer period for which the synthetic unit is analysed. Unfortunately, the world is not static, and the attitudes of many countries to trade (and at company levels to off-shoring) have been changing. This means that it is very optimistic to assume that the synthetic Czechia created on data for 1997-2003 is still representative enough for Czechia in 2018. This is, of course, not fully the author’s fault (it is rather a feature of the methodology), but a more detailed discussion of the possible implications would have been appreciated.

Comments on the Conclusion

The conclusion includes lengthy policy proposals (section 6.2, pages 77-85), again written in a relatively soft style, but most importantly - they are based neither on the results of actual research results presented in the thesis nor on the careful interpreted (and cited) literature. Some recommendations are strange, e.g., how can CEE countries participate in deeper economic integration alone? Most policies needed for this are decided at the EU level (e.g. the signing of new FTAs). Similarly, the author apparently did not research the history of CEFTA (the participation in which is recommended on p. 85). This section probably should not have been included in the thesis, or at least in its current form.

Selected additional minor and language issues:

- It is interesting that the author does not provide the statistical definition of the FDI (with the 10% limit) and does not discuss the treatment of loans between controlling and controlled entities or the statistical treatment of reinvested earnings either. The author does not discuss the issues with the immediate and actual origin of FDI either, although it could have been relevant, e.g., in the discussion of the role of the EU in total FDI inflows.
- The Czech Republic and Poland are not Slovenia’s neighbouring countries (p. 64)
- It seems that the author often relied more on Chinese sources (or notes transcribed to Chinese) than the original materials. This is apparent in some names: Laeken declaration, not Lacon (p. 26)
- Strange wording used on p. 20 leaves a reader wondering whether the author is aware of the basic fact that only some of the new members used to be part of the USSR.
- When describing the literature and development over 30 years, the language used does not always differentiate between older (and not necessarily still valid) claims made by authors e.g. in the late 1990s or early 2000s, and newer (and possibly still relevant facts) - e.g. claims on the relative level of CEE countries or their development model (p. 14). Again, additional editing (with the help of a native speaker) might have helped.
- Comparison of FDI stocks (p. 27-28 and 32) is typically done on absolute numbers. However, Poland was the

largest country in the sample, while some of the other analysed countries were significantly smaller (Slovenia, Estonia). Comparing FDI stocks per capita could have brought some additional insight.

- The formatting of some of the mathematical expressions in section 4 could be improved (esp. the use of subscripts or consistent notation for the weights)

Specific questions you would like addressing at the oral defence (*at least 2 questions*):

1. What is the so-called Lucas paradox? What did it say about observed flows of FDI?
2. What are BIT treaties? Can their signing influence inflows of FDI?
3. Is the lagged outcome variable typically used in the set of predictor variables in SCM models?
4. When was CEFTA created, and who were the original members?